

FISCAL NOTE

Bill #: SB0433 **Title:** Soft drink tax for funding elder services, medicaid, student assessments

Primary Sponsor: Ryan, D **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary	FY2003 <u>Difference</u>	FY 2004 <u>Difference</u>	FY 2005 <u>Difference</u>
Expenditures:			
General Fund	\$196,680	\$1,042,376	\$96,712
Revenue:			
State Special Revenue		\$18,933,000	\$19,112,000
Net Impact on General Fund Balance:	(\$196,680)	(\$1,042,376)	(\$96,712)

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|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact
<input type="checkbox"/> Included in the Executive Budget
<input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns
<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input checked="" type="checkbox"/> Needs to be included in HB 2 |
|---|---|

Fiscal Analysis

ASSUMPTIONS:

1. Beginning July 1, 2003, this bill would impose a tax of \$0.05 on each unit of soft drinks, where a unit is one container or 12 fluid ounces to be dispensed through a soft drink fountain. The tax would be imposed on bottlers or importers of soft drinks.
2. Per capita consumption of soft drinks is 53 gallons per year, with 77 percent sold in containers and 23 percent dispensed through soft drink fountains. (National Soft Drink Association) Montana population will be 930,281 in FY 2004 and 939,060 in FY 2005. The average size of a unit is 16 fluid ounces so that each gallon consumed will average eight taxable units. Thus, there will be 394.439 million taxable units in FY 2004 (8 units per gallon x 53 gallons per person x 930,281 persons) and 398.161 million taxable units in FY 2005 (8 units per gallon x 53 gallons per person x 939,060 persons).
3. Taxpayers would be allowed to retain 4 percent of tax liability as payment for the costs of complying with the tax. Collections would be \$18.933 million in FY 2004 (96% x \$0.05 x 394.439 million units) and \$19.112 million in FY 2005 (96% x \$0.05 x 398.161 million units)
4. Because of the significant revenue it would collect, the Department of Revenue would need to implement a new computer system to administer this tax. Development would have to begin in FY 2003. Costs to purchase and customize software would be \$194,826 in FY 2003 and \$1,003,497 in FY 2004. Costs for office equipment and computers for contract programmers would be \$1,854 in FY 2003. Ongoing maintenance costs would be \$64,780 beginning in FY 2005.
5. The Department of Revenue would need an additional 0.75 FTE for processing and compliance work. Personnel costs would be \$28,114 in FY 2004 and \$27,931 in FY 2005. Costs of \$5,800 for new office

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equipment and computers would be incurred in FY 2004. Operating costs, including forms development, would be \$4,965 in FY 2004 and \$4,001 in FY 2005.

<u>FISCAL IMPACT:</u>	FY2003	FY 2004	FY 2005
<u>Expenditures:</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue - Pgm 08 – Compliance, Valuation, and Resolution			
FTE		0.75	0.75
Personal Services	\$0	\$28,114	\$27,931
Operating Expenses	\$0	4,965	4,001
Equipment	<u>\$0</u>	<u>5,800</u>	<u>\$0</u>
TOTAL	\$0	\$38,879	\$31,932

Department of Revenue - Pgm 02 – Information Technology			
Operating Expenses	\$194,826	\$1,003,497	\$64,780
Equipment	<u>1,854</u>	<u>0</u>	<u>0</u>
TOTAL	\$196,680	\$1,003,497	\$64,780

Funding of Expenditures:			
General Fund (01)	\$196,680	\$1,042,376	\$96,712

Revenues:			
State Special Revenue (02)	\$0	\$18,933,000	\$19,112,000

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):			
General Fund (01)	(\$196,680)	(\$1,042,376)	(\$96,712)
State Special Revenue (02)	\$0	\$18,933,000	\$19,112,000

LONG-RANGE IMPACTS:

Collections of the new soft drink tax would grow over time with increasing consumption. The Department of Revenue's ongoing costs of administering the new tax would be approximately \$97,000 each fiscal year.

TECHNICAL NOTES:

1. Subsection 1(4)(b) defines 12 fluid ounces contained in a bulk container used to supply soft drinks to a soft drink fountain as one unit of soft drink. Soft drink fountains typically are supplied with separate bulk containers of concentrate and carbonated water rather than bulk containers of soft drinks. This fiscal note assumes that one unit means the concentrate to produce 12 fluid ounces of a soft drink, but this definition needs to be clarified. If one unit is 12 fluid ounces of concentrate, less revenue would be collected.
2. Section 6 directs that collections of this tax would be distributed to the Office of Public Instruction and the Department of Public Health and Human Services. However, it gives no direction for dividing collections between the two agencies. It is unknown whether the collections would be subject to legislative appropriation or some other method of distribution.
3. The definition of "bottler" in subsection 1(1) could include an individual who makes soft drinks for home consumption. This fiscal note assumes that home production would not be taxable.
4. This bill imposes a very tight timeline on the Department of Revenue for implementing a new tax. The department would not be able to have a new computer system in place to process tax returns by the time

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the first quarterly returns would be filed. The department would deposit receipts and hold returns for processing until the system was operational.

5. The Department of Revenue's computer system costs were estimated without the use of Information Technology Services Division/Chief Information Officer (Department of Administration) recommended project methodology.
6. The information technology (IT) project required to implement this legislation would require the review and approval of the Chief Information Officer as provided for in 1-17-512, MCA.